



Committee Secretary
Senate Standing Committees on Environment and Communications
PO Box 6100
Parliament House
Canberra ACT 2600

28 September 2018

Via online submission and email: ec.sen@aph.gov.au

Dear Committee Secretary,

Submission - Treasury Laws Amendment (Improving the Energy Efficiency of Rental Properties) Bill

Thank you for your email dated 29 August 2018 and for the opportunity to make this submission.

Summary

We support and applaud the Treasury Laws Amendment (Improving the Energy Efficiency of Rental Properties) Bill ('the Bill').

This initiative is an opportunity to strive for more ambitious outcomes in terms of improving the energy efficiency, liveability, comfort and well-being of homes, and to reduce carbon emissions and enhance energy equity and justice in the process. In this regard, we make the following recommendations:

1. To better reflect median rents:
 - a) each housing type (e.g. detached home, home unit) have its own rental threshold; and
 - b) the rental threshold be increased for each housing type reflect the median rent applicable to Australian capital cities.
2. To support substantive energy efficiency upgrades, the minimum tax offset be increased to \$5,000.
3. The Bill be expanded to incentivise upgrades in the social housing and strata sectors.
4. The implementation of the Bill be supported by a concerted and widespread education campaign, particularly targeting landlords, strata bodies and low income households.
5. The definition of 'energy efficiency measure' be expanded to include a wider range of assessment methods, including:
 - a) Victorian Residential Efficiency Scorecard
 - b) Home energy audits completed by suitably qualified and accredited assessors (i.e. by the Australian Building Sustainability Association or other similar organisations).
6. The review of the amendments to the Income Tax Assessment Act 1997 be informed by a comprehensive monitoring and evaluation strategy that:
 - a) articulates measurable outcomes at various scales (housing typology, location etc)
 - b) Provides robust evidence of whether the intended outcomes have been achieved at, if so, the causal relationships between the amendments and those outcomes
 - c) includes SMART measures and indicators that use a rich data set captured from the commencement of the amendments.

1. Introduction

- 1.1 Energy deprivation is a complex and multidimensional concept that centres upon the inability of a person or household to satisfy their basic home energy needs. To understand the nature and causes of energy deprivation requires a consideration of other paradigms such as energy justice and vulnerability.
- 1.2 Low income households spend a high proportion of their income on energy bills to heat and cool their homes, as well as for cooking, lighting and refrigeration. As a result, they are particularly vulnerable to energy prices, and thus may have difficulty meeting their energy needs if prices rise or in periods of increased demand such as during heatwaves and cold snaps. A person's struggle to maintain their home's thermal comfort can have detrimental implications for their health and wellbeing.
- 1.3 Our research reveals that energy deprivation is a pervasive problem across low-income households in Australia, a high proportion of which reside in rental accommodation. Key drivers are the household's poor socioeconomic situation, lack of access to information, the home's poor energy performance, and increasing energy prices. The poor energy performance of rental properties is a legacy issue of the existing housing stock. Split incentives create a further barrier to landlords undertaking energy efficiency upgrades. That is, there is little incentive for landlords to upgrade their properties because the energy efficiency benefits flow to tenants not themselves.
- 1.4 Financial incentives for landlords that provide co-benefits and reduce split incentives can go some way in addressing energy deprivation, providing broader access to affordable, healthy and comfortable homes. Energy efficiency upgrades also support Australia's low-carbon energy transition, make that transition just by ensuring that societal costs, risks and benefits of that shift are distributed fairly, and buffer against resource scarcity.
- 1.5 At our National Forum 'Low Carbon Homes for Low Income Households' hosted by our University of Wollongong Node on 8 August 2018 ([LINK](#)), incentivising energy efficiency upgrades to rental properties was raised as an important and straightforward policy response to encourage energy efficiency. However, the expert participants recognised that this would be a small piece of the policy response, and highlighted important issues in validation and compliance (i.e. in ensuring that improvements claimed under this offset offer a genuine improvement in energy efficiency). Additional solutions suggested during the forum included implementing minimum energy efficiency requirements for investment properties before negative gearing applies, implementing minimum energy standards before properties can be listed for lease (which would require an effective energy efficiency rating scheme for existing properties), and requiring mandatory disclosure of the energy efficiency of a property when listed for lease or sale (again, an effective energy efficiency rating scheme for existing properties would be required).
- 1.6 Accordingly, we are pleased to make the following submission in support of the spirit and intent of the Bill.
- 1.7 We have undertaken and continue to undertake leading research in the relevant fields, much of which speaks directly to the matters under discussion. In this regard, we enclose a copy of our project catalogue, which includes research outputs to date.

2. Who we are

- 2.1 We are an end-user driven national research and innovation hub that brings together leading innovators from the academic, public and private sectors to develop the scientific, technological, industrial, educational and social resources to facilitate the community's transition to a low carbon built environment.
- 2.2 We were established in 2012 under the Australian Government's Cooperative Research Centres Program which aims to deliver significant economic, environmental and social benefits by supporting end-user driven research partnerships.
- 2.3 Based at UNSW, we unite researchers from eight academic institutions across Australia with 20 industry and 17 government partners to address three programs:
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| Integrated Building Systems | Developing low-carbon products and services, and finding ways to communicate best practice design through rating tools, standards and display homes |
| Low Carbon Precincts | Creating models, guidelines, standards and data for delivering low carbon developments at a precinct level and communicating best practice sustainable city planning through exemplar precinct developments and tools |
| Engaged Communities | Capturing and building new community demand for low carbon living. |
- 2.4 Emissions reduction, energy security, energy deprivation and related areas are key research areas within our three programs.
- 2.5 With over 100 projects initiated across Australia since 2012 and by training nearly 100 PhD students, we are driving a once in a generation boost to our national capabilities that will resonate into the future, overcoming barriers to the cost-effective reduction of carbon emissions generated by the built environment, while simultaneously fostering industry competitiveness, improving the quality of urban life and building resilience to climate change.
- 2.6 As the only research and innovation hub of its kind in Australia, we have established a national reputation for authoritative, high-quality research and growing influence among senior decisions makers in industry and government. By forging strategically-designed partnerships, our researchers are linked to the right industries and the commercial and on-ground expertise essential for market success. This creates an unbroken pathway to impact in Australia, as well as considerable opportunities for the export of Australian knowledge and expertise.

3. Treasury Laws Amendment (Improving the Energy Efficiency of Rental Properties) Bill 2018

- 3.1 For simplicity and comprehensiveness, we respond to each section of the Bill in following table:

Section	Support	Support with conditions	Neutral	Unsupported	Comments
1 Short title	✓				
2 Commencement	✓				
Schedule 1— Amendments	✓				
Section 13-1	✓				
Section 67-23	✓				
What this Division is about	✓				
381-5 Energy efficiency offset		✓			<p>Confining the tax offset to rental properties that are leased at \$300 per week or less is likely to significantly limit the depth and breadth of the Bill’s impact. Naturally, the quantum of rent reflects the condition, size, type and, particularly, the location of the home. Thus, according to realestate.com, the median weekly rent for two-bedroom home units in Sydney and Melbourne is \$930 and \$600 respectively, which would therefore exclude a large proportion of the rental properties in those markets.</p> <p>Further, whilst the maximum tax offset that can be claimed (\$2,000) may encourage landlords to implement simple energy efficiency measures, this amount is unlikely to be sufficient to stimulate investment in energy efficiency upgrades that will deliver substantial energy savings or thermal comfort improvements. For example, the cost to purchase and install an energy efficient electric heat pump or solar hot water service is around \$5,000. The cost of ceiling insulation for a typical home is in the order \$3,500.</p> <p>Further gains can be realised by also incentivising upgrades in the social housing sector.</p> <p>Recommendations:</p> <ol style="list-style-type: none"> 1. To better reflect median rents: <ol style="list-style-type: none"> a) each housing type (e.g. detached home, home unit) have its own rental threshold; and b) the rental threshold be increased for each housing type reflect the median rent applicable to Australian capital cities. 2. To support substantive energy efficiency upgrades, the minimum tax offset be increased to \$5,000. 3. The Bill be expanded to incentivise upgrades in the social housing and strata sectors. 4. The implementation of the Bill be supported by a concerted and widespread education campaign, particularly targeting landlords, strata bodies and low income households.
381-10 Meaning of energy efficiency measure		✓			<p>NatHERS assessments are generally only completed for new buildings and may not be useful for older buildings with poor construction documentation. NABERS assessments will only be relevant for apartment common areas.</p> <p>Recommendation:</p>

					5. The definition of ‘energy efficiency measure’ be expanded to include a wider range of assessment methods, including: <ul style="list-style-type: none"> a) Victorian Residential Efficiency Scorecard b) Home energy audits completed by suitably qualified and accredited assessors (i.e. by the Australian Building Sustainability Association or other similar organisations).
381-15 Additional conditions for energy efficiency measures	✓				
Part 2—Review of amendments		✓			<p>As mentioned above, we are of the view that the low rental threshold and low offset amount will limit uptake, especially in city centres. Accordingly, the review should draw upon a comprehensive monitoring and evaluation strategy to understand if the amendments are having their intended effect and to ensure that the initiative is not being misused, for example, by landlords claiming for energy efficiency upgrades whose primary purpose is aesthetic rather than energy performance (e.g. decorative curtains).</p> <p>Recommendation</p> <p>6. The review of the amendments to the Income Tax Assessment Act 1997 be informed by a comprehensive monitoring and evaluation strategy that:</p> <ul style="list-style-type: none"> a) articulates measurable outcomes at various scales (housing typology, location etc) b) Provides robust evidence of whether the intended outcomes have been achieved at, if so, the causal relationships between the amendments and those outcomes c) includes SMART measures and indicators that use a rich data set captured from the commencement of the amendments.

4. Acknowledgements

4.1 We would like to specifically acknowledge and thank the following contributors to this submission:

- a) **Professor Peter Newman AO**, John Curtin Distinguished Professor of Sustainability, Curtin University, Western Australia. Professor Newman has long term professorial standing in sustainability policy, is a lead researcher within the CRC for Low Carbon Living and was recognised as the WA scientist of the year in 2018.
- b) **Dr. Daniel Daly**, Research Fellow, University of Wollongong. Dr. Daly’s research focuses on optimal retrofit strategies for improving the energy efficiency of existing buildings, with a focus on the human factors in energy efficiency upgrades. He is currently leading a comprehensive research project exploring optimal retrofit strategies for social housing dwellings.
- c) **Dr. Edgar Liu**, Senior Research Fellow, City Futures Research Centre, UNSW. Dr. Liu’s research focuses on assessing the effectiveness of public housing estate regeneration in Australia; the affordable and social housing sector; housing choice decision-making; energy deprivation; and concepts of community and place.

- d) **Dr. Mike Mouritz**, Adjunct Associate Professor, Curtin University. Dr. Mouritz is an urban development professional with 20+ years' experience in local and state government and in the private sector.

We look forward to hearing how our submission has been considered and applied. If you wish to discuss any element of the above or would like any further information or documentation, please do not hesitate to contact us. Thank you once again.

Yours sincerely,

CRC for Low Carbon Living

Per:

Stephen Summerhayes

Utilisation and Impact Manager